

**MARICOPA COUNTY MEDICAL CENTER**  
**Report on Audit of Financial Statements**  
**June 30, 2001**

**MARICOPA COUNTY MEDICAL CENTER**  
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**June 30, 2001**

<b>Table of Contents</b>	<b>Page</b>
Independent Auditors' Report	1
Balance Sheet—Enterprise Fund	2
Statement of Revenues, Expenses, and Changes in Fund Equity—Enterprise Fund	4
Statement of Cash Flows—Enterprise Fund	6
Notes to Financial Statements	8



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

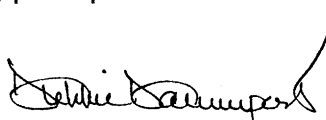
The Board of Supervisors of  
Maricopa County, Arizona

We have audited the accompanying financial statements of the Maricopa County Medical Center as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Maricopa County Medical Center, and are not intended to present fairly the financial position of the Proprietary Fund Types—Enterprise Funds of Maricopa County, Arizona, and the results of their operations and cash flows in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Maricopa County Medical Center as of June 30, 2001, and the results of its operations and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

  
Debbie Davenport  
Auditor General

October 5, 2001

**MARICOPA COUNTY MEDICAL CENTER**

**Balance Sheet—Enterprise Fund**

**June 30, 2001**

**Assets**

**Current assets:**

Cash and investments held by trustee	\$ 24,761,230
Accounts receivable (net of allowance for uncollectibles of \$71,778,243)	49,709,415
Due from other County funds	15,331,479
Due from other governmental units	2,181,565
Inventory of supplies	5,647,704
Prepaid items	<u>4,023,420</u>

Total current assets	<u>101,654,813</u>
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**Property, plant, and equipment:**

Land	302,193
Buildings	71,070,038
Improvements other than buildings	2,372,497
Machinery and equipment	70,870,584
Accumulated depreciation—plant and equipment	(76,604,398)
Construction in progress (estimated cost to complete \$14,031,763)	<u>33,304,314</u>

Net property, plant, and equipment	<u>101,315,228</u>
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Total assets	<u><u>\$ 202,970,041</u></u>
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(Continued)

See accompanying notes to financial statements.

**MARICOPA COUNTY MEDICAL CENTER**  
**Balance Sheet—Enterprise Fund**  
**June 30, 2001**  
**(Continued)**

Liabilities and Fund Equity

Current liabilities:	
Vouchers payable	\$ 18,310,378
Employee compensation	5,636,472
Accrued liabilities	1,277,319
Due to other County funds	91,313,104
Due to other governmental units	1,491,296
Deferred revenue	1,539,630
Leases payable	229,159
Current portion of installment purchase agreements	415,295
Current portion of certificates of participation	769,000
Current portion of bonds payable	<u>2,513,756</u>
Total current liabilities	<u>123,495,409</u>
Long-term liabilities:	
Installment purchase agreements	2,607,816
Certificates of participation payable	10,777,000
Bonds payable	<u>17,986,244</u>
Total liabilities	<u>154,866,469</u>
Fund equity:	
Contributed capital	82,073,127
Accumulated deficit	<u>(33,969,555)</u>
Total fund equity	<u>48,103,572</u>
Total liabilities and fund equity	<u><u>\$ 202,970,041</u></u>

See accompanying notes to financial statements.

**MARICOPA COUNTY MEDICAL CENTER**  
**Statement of Revenues, Expenses, and Changes in**  
**Fund Equity—Enterprise Fund**  
**Year Ended June 30, 2001**

Operating revenues:	
Patient service revenues	\$ 427,692,858
Deductions from patient service revenues:	
Allowance for uncollectible accounts	(66,361,163)
Indigent patient write-offs	(18,779,431)
Contractual and administrative adjustments (including \$27,272,775 of Medicare billings in excess of cost reimbursements)	(65,926,365)
Maricopa County Health Plans/Arizona Health Care Cost Containment System contractual adjustments	<u>(95,526,824)</u>
Net patient service revenues	<u>181,099,075</u>
Other operating revenues:	
Disproportionate share settlement	45,895,500
Charges for services	16,384,800
Other	<u>1,450,863</u>
Total other operating revenues	<u>63,731,163</u>
Deductions from other operating revenues:	
Disproportionate share reimbursements	<u>(32,755,200)</u>
Net other operating revenues	<u>30,975,963</u>
Net operating revenues	<u>212,075,038</u>
Operating expenses:	
Daily hospital services	49,864,976
Outpatient nursing services	40,750,741
Special nursing services	18,646,769
Ancillary services	45,233,044
General services	17,379,819
Fiscal services	18,578,798
Administrative services	9,657,377
Medical services administration	9,808,151
Nondepartmental	<u>22,827,461</u>
Total operating expenses	<u>232,747,136</u>
Operating loss	(20,672,098)
	(Continued)

See accompanying notes to financial statements.

**MARICOPA COUNTY MEDICAL CENTER**  
**Statement of Revenues, Expenses, and Changes in**  
**Fund Equity—Enterprise Fund**  
**Year Ended June 30, 2001**  
**(Continued)**

Nonoperating revenues (expenses):	
Grant revenue	\$ 7,454,321
Interest income	228,277
Interest expense	(6,941,858)
Operating transfers from other County funds	21,537,719
Operating transfers to other County funds	<u>(1,141,681)</u>
Net nonoperating revenues	<u>21,136,778</u>
Net income	464,680
Fund equity, July 1, 2000	<u>47,638,892</u>
Fund equity, June 30, 2001	<u><u>\$ 48,103,572</u></u>

See accompanying notes to financial statements.

**MARICOPA COUNTY MEDICAL CENTER**  
**Statement of Cash Flows—Enterprise Fund**  
**Year Ended June 30, 2001**

Cash flows from operating activities:	
Operating loss	\$ (20,672,098)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	6,964,494
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(23,644,254)
Inventory of supplies	(2,720,387)
Prepaid items	(1,662,842)
Employee compensation	804,591
Due to other County funds	52,921
Decrease in:	
Due from other County funds	2,359,981
Due from other governmental units	2,340,219
Vouchers payable	(1,059,829)
Accrued liabilities	(465,706)
Due to other governmental units	(1,797,608)
Net cash used by operating activities	<u>(39,500,518)</u>
Cash flows from noncapital financing activities:	
Loan from County General Fund	91,260,183
Cash transfers from County funds	40,627,518
Grant receipts	3,797,392
Loan payment to County General Fund	(65,018,935)
Cash transfers to County funds	(1,141,681)
Interest payments	(6,941,858)
Net cash provided by noncapital financing activities	<u>62,582,619</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of certificates of participation	6,975,000
Proceeds from sale of bonds	20,500,000
Acquisition of capital assets	(29,810,804)
Installment purchase payments	(255,353)
Capital lease payments	(379,635)
Certificates of participation payments	(729,000)
Net cash used for capital and related financing activities	<u>(3,699,792)</u>
Cash flows from investing activities:	
Interest and dividends received on investments	<u>228,277</u>
Net cash provided by investing activities	<u>228,277</u>
Net increase in cash and cash equivalents	19,610,586
Cash and cash equivalents, July 1, 2000	<u>5,150,644</u>
Cash and cash equivalents, June 30, 2001	<u>\$ 24,761,230</u>

(Continued)

See accompanying notes to financial statements.



**MARICOPA COUNTY MEDICAL CENTER**  
**Statement of Cash Flows—Enterprise Fund**  
**Year Ended June 30, 2001**  
**(Continued)**

The following noncash transactions occurred during the year ended June 30, 2001.

Due from County General Fund	\$	15,031,706
Operating transfers-in	\$	(15,031,706)
Construction in progress	\$	6,847,121
Vouchers payable	\$	(6,847,121)
Machinery and equipment	\$	3,278,464
Installment purchase agreements	\$	(3,278,464)

See accompanying notes to financial statements.

**MARICOPA COUNTY MEDICAL CENTER**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 1 - Summary of Significant Accounting Policies**

The financial statements of the Maricopa County Medical Center have been prepared in a format that complies with the *Health Care Organizations Audit and Accounting Guide* of the American Institute of Certified Public Accountants and the regulatory reporting requirements of the State of Arizona. The accounting policies of the Medical Center conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Medical Center's more significant accounting policies follows.

**A. Reporting Entity**

The Medical Center is accounted for as an enterprise fund of Maricopa County, Arizona, under the direction of an administrator contracted by the County Board of Supervisors. However, ultimate fiscal responsibility for the Medical Center remains with the County. The Medical Center provides both inpatient and outpatient medical and nursing services to the general public, indigent patients of the County, and eligible enrollees of the Arizona Health Care Cost Containment System (AHCCCS).

**B. Fund Accounting**

The Medical Center's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Medical Center's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses.

The Medical Center's financial transactions are recorded and reported as an enterprise fund since its operations are financed and operated in a manner similar to private business enterprises, in which the intent of the County Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The measurement focus of the fund is on the flow of economic resources. The Medical Center applies only those applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**MARICOPA COUNTY MEDICAL CENTER**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 1 - Summary of Significant Accounting Policies (Cont'd)**

**C. Basis of Accounting**

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Medical Center are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**D. Cash and Investments**

For purposes of its statement of cash flows, the Medical Center considers only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

**E. Accounts Receivable**

Accounts receivable are due from a variety of self-pay, third-party, AHCCCS, and Medicare patients. The allowance for uncollectible accounts is based upon management's evaluation of the collectibility of the accounts.

**F. Inventory of Supplies**

Inventories are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the first-in, first-out method.

**G. Property, Plant, and Equipment**

Purchased property, plant, and equipment are capitalized at cost. Major outlays for assets or improvements to them are capitalized as projects are constructed. Interest incurred during the construction phase of the project is capitalized net of interest earned on the invested proceeds over the same period. Depreciation of property, plant, and equipment is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	10 to 50 years
Improvements other than buildings	10 to 50 years
Machinery and equipment	3 to 10 years

**MARICOPA COUNTY MEDICAL CENTER**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 1 - Summary of Significant Accounting Policies (Concl'd)**

**H. Compensated Absences**

Compensated absences consist of personal leave and a long-term absence bank earned by employees based on services already rendered. Employees may accumulate up to 240 hours of personal leave and its value is accrued at June 30. Any leave hours in excess of the maximum amount that are unused at calendar year-end are transferred to the long-term absence bank, and ultimately forfeited upon termination of employment. Generally, the long-term absence bank provides for extended periods of sick leave and is cumulative but does not vest with employees and, therefore, is not accrued. However, upon retirement, employees with accumulated long-term absence banks in excess of 1,000 hours are entitled to a \$3,000 bonus. The vested amount of such bonuses is reported as an accrued compensation expense liability.

**I. Patient Service Revenues**

Patient service revenues, including services provided to indigent patients of the County, are recorded at established rates regardless of whether collection in full is expected. Contractual and administrative adjustments and uncollectible accounts are recorded as deductions from patient service revenues.

The Medical Center provides services to patients under a contractual agreement with the Medicare program. Amounts received from Medicare are determined based upon a mix of prospectively determined payments and reimbursement of allowable expenses for patient service costs, capital costs, and medical education costs.

The Medical Center also provides services to patients under agreements with AHCCCS, County Health Plans, and various County departments. The most significant of these agreements are with the Maricopa County Health Plan (MCHP) and Arizona Long-Term Care System (ALTCS) Health Plan. Payments for services under these agreements are based on discounted amounts from established rates.

**J. Grant Revenues**

Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenses are incurred.

**K. Charity Care**

Since the Medical Center is owned and operated by the County, it is prohibited by Arizona Revised Statutes from providing care to patients without charging them for such services. Accordingly, there is no charity care recognized for the year ended June 30, 2001. However, the Medical Center, as a provider of care to indigent as well as nonindigent patients, does provide care to patients who may not have the ability to pay. Consequently, the charges (revenues) for the unreimbursed care provided to these patients are offset by increasing the allowance for uncollectibles.

**MARICOPA COUNTY MEDICAL CENTER**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 2 - Cash and Investments Held by Trustee**

Cash and investments held by trustee consist of government security mutual funds that are not subject to collateralization. These monies are to be used for the construction of clinics and to make renovations at the Medical Center. All investments are stated at fair value.

**Note 3 - Due To Other County Funds**

Due to other County funds consist of \$91,260,183 due to the County General Fund for advances received to temporarily eliminate cash overdrafts in the Medical Center Fund and \$52,921 due to the Maricopa County Health Plans for services received.

**Note 4 - Obligations Under Leases**

**Capital Leases**—The Medical Center has acquired medical furniture under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because it provides for a bargain purchase option. Accordingly, such assets have been capitalized, and a summary of them at June 30, 2001, follows.

Total furniture	2,300,000
Less accumulated depreciation	<u>1,971,429</u>
Carrying value	<u>\$ 328,571</u>

The future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments at June 30, 2001, were as follows:

Year ending June 30, 2002	<u>\$232,792</u>
Total minimum lease payments	232,792
Less amount representing interest	<u>3,633</u>
Present value of net minimum lease payments	<u>\$229,159</u>

**MARICOPA COUNTY MEDICAL CENTER**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 4 - Obligations Under Leases (Concl'd)**

**Operating Leases**—The Medical Center leases medical equipment and office space under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases were \$1,658,091 for the year ended June 30, 2001. The operating leases have remaining noncancelable lease terms from 1 to 2 years and some provide renewal options.

The future minimum rental payments required under the operating leases at June 30, 2001, were as follows:

Year ending June 30,	
2002	\$ 528,536
2003	<u>510,230</u>
Total minimum payments required	<u>\$1,038,766</u>

**Note 5 - Installment Purchase Contracts Payable**

Installment Purchase contracts payable consist of agreements for the acquisition of CAT Scan and MRI equipment at a total purchase price of \$3,278,464. The future minimum payments required under the contracts at June 30, 2001, including interest varying from 4.50 to 5.82 percent, are as follows:

Year ending June 30,	
2002	\$ 555,306
2003	555,306
2004	555,306
2005	555,306
2006	555,306
Thereafter	<u>750,770</u>
Total minimum payments	3,527,300
Less amount representing interest	<u>504,189</u>
Present value of net minimum lease payments	<u>\$ 3,023,111</u>

**Note 6 - Certificates of Participation Payable**

During the year ended June 30, 2000, the County issued \$5,300,000 in certificates of participation with interest rates of 5.5 to 6.0 percent to construct a clinic and make renovations at the Medical Center. The certificates are generally noncallable, with interest payable semiannually.

During the year ended June 30, 2001, the County issued \$6,975,000 in certificates of participation with interest rates of 4.5 to 5.5 percent to purchase and renovate a hospital and medical office complex. The certificates are generally callable after July 1, 2010, with interest payable semiannually.

**MARICOPA COUNTY MEDICAL CENTER**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 6 - Certificates of Participation Payable (Concl'd)**

Principal and interest requirements at June 30, 2001, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal</u>
Certificates of participation 2000	5.70-6.00%	7/1/02-7/1/10	\$5,006,000
Certificates of participation 2001	4.60-5.50%	7/1/02-7/1/15	\$6,540,000

Certificates of participation debt service requirements to maturity, including \$4,409,498 of interest, are as follows:

Year ending June 30,	
2002	\$ 1,392,663
2003	1,392,461
2004	1,396,738
2005	1,399,105
2006	1,396,457
Thereafter	<u>8,978,074</u>
Total	<u>\$15,955,498</u>

**Note 7 - Bonds Payable**

During the year ended June 30, 2001, the County issued \$124,855,000 in lease revenue bonds with interest rates of 3.45 to 5.5 percent. Of the proceeds received, the County allocated \$20,500,000 to the County Medical Center to construct a comprehensive health clinic. The bonds are generally callable after July 1, 2012, with interest payable semiannually.

Principal and interest requirements at June 30, 2001, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal</u>
Lease Revenue Bonds, Series 2001	3.45-5.50%	7/1/02-7/1/15	\$20,500,000

Lease revenue bonds debt service requirements to maturity, including \$7,911,555 of interest, are as follows:

Year ending June 30,	
2002	\$3,636,937
2003	3,593,655
2004	1,752,381
2005	1,754,779
2006	1,758,194
Thereafter	<u>15,915,609</u>
Total	<u>\$28,411,555</u>

**MARICOPA COUNTY MEDICAL CENTER**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 8 - Accumulated Deficit**

The accumulated deficit totaling \$33,969,555 at June 30, 2001, resulted from normal operations of the Medical Center over a period of several years. The deficit can be permanently corrected through profitable operations or by operating transfers from the County. During the year ended June 30, 2001, the Medical Center received \$3,547,901 and \$17,989,818 of operating transfers from the County General Fund to subsidize the teaching program and the indigent care costs, respectively. Of these amounts, \$15,031,706 is recorded in the Due from County General Fund.

**Note 9 - Disproportionate Share Settlement**

Section 1923 of the Social Security Act establishes federal requirements designed to aid entities that provide medical services to a disproportionate share of medically indigent patients. These requirements were met for the year ended June 30, 2001, through disproportionate share settlements established by Laws 1999, First Special Session, Chapter 1, as amended by Laws 2001, Chapter 344. AHCCCS was directed to distribute such settlements based on various qualifying criteria and allocation processes. Laws 1999 appropriated disproportionate share settlement amounts to be distributed to the hospitals for the year ended June 30, 2001. The Medical Center's share of the settlement for the year ended June 30, 2001, totaled \$45,895,500. However, Laws 1999, Chapter 176, as amended by Laws 2001, Chapter 344, also mandated the reimbursement of a portion of the disproportionate share settlement through the State Treasurer to the State General Fund. Required reimbursements totaled \$32,755,200 for the year ended June 30, 2001.

**Note 10 - Related Party Transactions**

During the year ended June 30, 2001, patient service revenues and charges for services included \$20,756,542 and \$22,878,303 received from the County MCHP and ALTCS Funds, respectively.

**Note 11 - Risk Management**

The Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; and natural disasters. The Medical Center is a participant in Maricopa County's self-insurance program, and in the opinion of the Medical Center's management, any unfavorable outcomes from these risks would be covered by that self-insurance program. Accordingly, the Medical Center has no risk of loss beyond adjustments to future years' premium payments to Maricopa County's self-insurance program. All estimated losses for unsettled claims and actions of Maricopa County are determined on an actuarial basis and are included in the *Maricopa County Comprehensive Annual Financial Report*.



**MARICOPA COUNTY MEDICAL CENTER**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 12 - Retirement Plan**

**Plan Description** – The Medical Center contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

**Funding Policy** – The Arizona State Legislature establishes and may amend active plan members' and the Medical Center's contribution rates. For the year ended June 30, 2001, active plan members and the Medical Center were each required by statute to contribute at the actuarially determined rate of 2.66 percent (2.17 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The Medical Center's contributions to the System for the years ended June 30, 2001, 2000, and 1999 were \$2,321,225, \$2,052,593, and \$2,091,395, respectively, which were equal to the required contributions for the year.